IMPORTANT FINANCIAL PROBLEMS.

by A. J. Warner

Can the United States or Any Other Debtor Nation Maintain the Single Gold Standard?

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To the Editor of the Sun:

SIR: In order to maintain the single gold standard in any country there must be kept constantly on hand gold in some proportion to the currency to be redeemed. Assuming that the amount now in this country is sufficient to secure at all times prompt redemption in gold of all other forms of money, then, under these conditions, if the United States, or the people of the United States, owed nothing to other countries and other countries owed the United States nothing, it would only be necessary for us to sell commodities enough to pay for what we buy elsewhere to keep even with other countries. To be able to do this, however, prices of the commodities we sell must be as low in the United States as anywhere else; otherwise we could not sell enough to pay for what we imported. In case exports in this way are made to balance imports, no gold would have to be transferred either way, and there would be no disturbance in monetary conditions. But, if we fail to sell commodities enough to pay for what we buy abroad, then gold must be transferred to cover the difference. On the other hand, if the balance be

in our favor, then gold would come to us. Under these conditions all that would be necessary to enable us to compete on even terms with other countries would be to keep prices of commodities so dealt in at the international level of prices by keeping the money volume properly restricted; otherwise, the volume of money would be automatically reduced by the exportation of gold.

But take the situation as it actually exists between England and the United States, or between England and India. England has invested from ten to twelve thousand million dollars in other countries, the income from which amounts probably to not less than $500,000,000 annually, which is more than the combined value of our entire wheat and cotton crops for 1893. The United States, on the other hand, according to conservative estimates, owes to other countries, mostly to England, to be paid annually as interest, $200,000,000 to $250,000,000. That is, in order not to be obliged to part with gold to settle balances, we must not only sell commodities enough to pay for what we buy, but pay $200,000,000 to $250,000,000 interest on what we owe other countries, besides, no account being taken of the cost of the carrying trade or of gold otherwise spent abroad. In order to do this, prices in this country must not only come down to the international level of prices, but must go enough below that level to induce the rest of the world to buy of us $200,000,000 to $250,000,000 worth of commodities more than we buy of the rest of the world. Nor can tariffs materially change these conditions. It is admitted, however, that to the extent a tariff operates to check imports, it will tend to reduce the amount to be paid abroad; but if it operates to raise prices of the goods we export, and thereby to check exports, then it will, in so far, tend to neutralize the effect of a check on imports. Under these conditions, it will be seen how futile must be the attempt to

keep up prices by tariffs or by currency or credit inflations. Such devices will only expedite the expulsion of gold by making it impossible to pay what we owe with commodities, and as gold is exported a violent contraction of credit always sets in, followed by a disastrous collapse of prices.

Now turn to England, a creditor nation, with an annual income of $500,000,000; she may import $500,000,000 worth of commodities more than she exports without having to transfer an ounce of gold to settle balances. It is not necessary, therefore, for prices of commodities, internationally dealt in, to be kept at as low a level in England as in debtor countries. She does not need to sell as much as she buys, and never expects to. Individuals may and do suffer there as here, but as a nation England stands on very different ground from that on which the United States stand. Nor is this all. England controls India absolutely, and can play imports from India against imports from the United States, and thereby keep down prices in both countries. This is exactly what England is now doing, especially with wheat and cotton.

Of course, in lieu of transferring gold to pay interest, or in settlement of balances, we can sell bonds as long as our creditors will take them. In other words, we can give new notes for interest due, as long as our creditors will be satisfied with that kind of payment, and that is really what we have been doing to a very large extent for many years. But that road leads necessarily to bankruptcy, and the longer it is followed the worse our condition becomes. The conclusion, therefore, is irresistible that no nation largely in debt can permanently maintain the single gold standard. And, historically, no debtor nation has ever been able to do so. Italy a few years ago bought with bonds, on which she now pays gold interest, $200,000,000 in gold; but in a few years it was all gone, and gold is now at a premium in Italy of from 15 to

20 per cent. Indeed, even her small silver coins have largely gone to France, and she is left at last with only inconvertible paper money. So it is with Spain, Portugal, Greece, and so with Australia and every South American state that has undertaken to establish the gold standard; and so it will be with Austria when she liberates her gold, and the United States will prove no exception if we pursue long enough the path we have so foolishly entered upon.

Under the bimetallic standard, with silver widely disseminated among the people, and constituting a principal part of the general supply of currency, the exportation of metal from accumulated stores to settle balances would have little effect on the money volume as a whole. If gold left us at times, silver would always be at hand to take its place as basic money. But the difference is measureless if silver itself, or certificates representing it, is to be redeemed in gold, as must be the case with the single gold standard.

A. J. Warner.

Washington, D. C., March 18, 1894.

FINANCIAL IMPOSSIBILITIES.

From the New York Sun of April 11, 1894.

To the Editor of the Sun:

SIR: There are things as impossible in the financial world as in the material world.

One of these is the accomplishment of what it is said will be recommended to Congress by the President and his Secretary of the Treasury, namely, a bill to provide, on the one hand, for coining the silver seigniorage now in the Treasury, in order to increase the supply of currency and keep up prices, and, on the other hand, to sell bonds to buy gold to maintain the gold standard.

These two things can no more be done at the same time than one can raise himself from the ground by his boot straps.

I.

We are a debtor nation, and besides paying for what we import we must pay something like a million dollars a day as interest on debts held abroad, to say nothing of the gold otherwise expended in foreign countries. These sums must all be paid with commodities or with gold. The only way we can pay with commodities is to keep prices of the things we export low enough to induce other countries to buy of us instead of buying elsewhere, and to buy enough more than they sell us to cover interest and other payments abroad.

If by increasing the volume of currency prices are raised so that exports are checked, then gold must and will go out of the country to pay balances. The situation, then, is this: more currency to raise prices and send gold out of the country; more bonds to buy the gold back. How long can that

go on? If the President is impervious to the facts and the logic of this condition, his Secretary, one would think, ought to see the situation he is putting the country in.

Of course, we can for a time pay interest and balances with new bonds, but that is the policy of "after us the deluge." What I have said of coining the seigniorage applies with still greater force to the issue of redeemable bank notes, or any other form of currency to act on prices. How ridiculous, then, to propose, while attempting to maintain the single gold standard, to repeal the State bank tax and flood the country with bank currency redeemable in gold! If the basis of our money system were bimetallic, the case would be very different, but the discussion of that subject is not the object of this paper.

II.

Another one of the impossibilities we are trying to achieve is to keep down prices of all articles of export, chiefly agricultural products, in order, with such products, to pay debts abroad and keep gold enough here to maintain the gold standard, and, at the same time, by tariffs, trusts, and labor organizations, keep up prices and wages in the protected and organized industries.

Wheat at 50 cents a bushel and cotton at 6 cents a pound to the farmer and planter do not afford to exceed 50 cents a day for agricultural labor; and as wages and prices in this field of labor must be kept down in order to enable us to export what is necessary to pay for imports and for interest due abroad, it comes, at last, to this: Can half the people, producing at $2 a day, exchange their products with the other half, who get but 50 cents a day? If one man can not exchange the product of his labor at $2 a day evenly for the product of another at 50 cents a day, a thousand, or a million, or ten millions can not.

In order to enable one man to exchange the products of his labor at $2 a day with those earning but 50 cents a day he must find four such men to exchange with, or he must limit his own labor to one day out of four, if he would keep his wages up to $2. By the same law, in order that one class of laborers may produce at higher wages and keep themselves employed, such class must have a much larger number working in other fields at lower wages. But this disparity in the number of workers in different lines of industry can only be permanently secured by restricting the number of persons allowed to enter such fields; in other words, by monopoly of labor as well as of capital. Such is the law of the equalization of wages and prices.

Is it not plain, then, that in going to a gold basis there must be a scaling down of wages in *all* industries and a reduction of all earnings, for earnings are but the product of wages and time?

III.

The railways of the country are now struggling to keep up their earnings, and, at the same time, they try to continue the old scale of wages. This can no more be done on our railways than in our industries generally; indeed much less, because railways are no more protected by tariffs than agriculture is. The bonded debts of railroads will remain the same whether our money standard is gold alone or is bimetallic; but rates and earnings must go down with everything else, and with them the wages of labor. Railways can no more resist this law than they can the law of gravity. Gold prices are not only low prices, but necessarily receding prices, for gold, under present conditions, must continue to appreciate indefinitely, and when everything else has been tried it will be found that the only way to maintain the gold standard is to restrict currency and credit, bring prices down, and keep

them down to the receding level of gold. In that way alone can gold be kept here and the gold standard be maintained. Prices depend upon what things are prioed in, and if we insist on having things priced in gold only we must accept the results. We can't enact that a bushel of wheat shall hereafter weigh ninety pounds and at the same time that no more wheat shall be required for a bushel.

But where does this road lead? To ruin, of course; but we are in it, and while we stay in it, it is better to know what is before us.

A. J. Warner.

Washington, April 9, 1894.

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